

**FRANKENMUTH SCHOOL DISTRICT
FRANKENMUTH, MICHIGAN**

FINANCIAL STATEMENTS
June 30, 2008

FRANKENMUTH SCHOOL DISTRICT
FRANKENMUTH, MICHIGAN
JUNE 30, 2008

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Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacomo Provenzano
James R. Schauman
Heather A. Thomas

INDEPENDENT AUDITOR'S REPORT

September 30, 2008

To the Board of Education
Frankenmuth School District
Frankenmuth, Michigan

We have audited the accompanying financial statements of the governmental activities of Frankenmuth School District, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Frankenmuth School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Frankenmuth School District as of June 30, 2008, and the respective changes in financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education
Frankenmuth School District
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2008 on our consideration of Frankenmuth School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gardner, Provengano, Schauman & Thomas, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FRANKENMUTH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

This section of the annual financial report presents management's discussion and analysis of Frankenmuth School District's performance during the fiscal year ending June 30, 2008. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the School District.

Annual Report

The annual report consists of our Management's Discussion and Analysis, a series of financial statements, notes to those statements, and supplemental information. The financial statements are divided into two sections. The District-Wide Financial Statements (Government-Wide Financial Statements) provide information about the activities of the School District as a whole. They present a year-end aggregate view and a longer-term view of the District's finances. All funds, capital assets and debt are combined. The Fund Financial Statements (Governmental Fund Statements) provide more detail showing the year's activity by fund. They also show the amount available to finance future programs. Fund Statements do not include long-term items such as capital assets or long-term debt.

District-Wide Financial Statements

The District-wide Financial Statements appear first in the financial statements. They present information on the School District as a whole. They show net assets and a statement of activities for the year. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Net assets, the difference between assets and liabilities, are one way of measuring the financial health of the School District. In the statement of activities, the revenues less the expenses result in an increase or decrease in the net assets. Increases or decreases in net assets, over time, affect the financial health of the District. However, the goal of the School District is to provide quality education and a safe environment, not to make a profit.

The statement of activities covers all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid, and State and Federal grants finance most of these activities.

FRANKENMUTH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Fund Financial Statements

The Fund Financial Statements provide detailed information about the most significant funds instead of the School District as a whole. Some funds are required to be established by State law and by bond covenants. Many of the other funds are created to help control and manage money for a particular purpose or to meet legal responsibilities for certain taxes, grants, and other money. The governmental funds of the School District focus on showing how money flows into and out of funds and the balances left at year-end. They provide a detailed, short-term view of the operations and services of the School District. This helps determine whether more or fewer financial resources are available for future programs. An accounting method called modified accrual accounting is used in fund accounting. This method measures cash and all other financial assets that can readily be converted to cash.

The relationship between governmental activities (District-Wide Financial Statements) and governmental fund activities (Fund Financial Statements) will be reconciled later in the report.

Agency Accounts

The School District acts as an agent for various student activity funds. These net assets are reported in separate statements. We exclude these net assets from the School District's other financial statement because we cannot use these assets to finance our operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Summary of District-Wide Financial Statement

Table 1 provides a summary of our net assets as of June 30, 2008 and 2007. They represent the School District as a whole.

Assets	2008	2007
Current and other assets	\$ 7,499,060	\$ 7,815,217
Capital assets - Net of accumulated depreciation	17,054,127	17,233,437
Total Assets	24,553,187	25,048,654
Liabilities		
Current liabilities	1,889,846	1,812,635
Long-term liabilities	10,981,873	11,732,095
Total Liabilities	12,871,718	13,544,730
Net assets		
Invested in capital assets - Net of related debt	5,474,127	4,953,437
Restricted for debt service	324,051	328,475
Restricted for capital projects	339,052	447,994
Unrestricted	5,544,239	5,774,018
Total Net Assets	\$ 11,681,469	\$ 11,503,924

FRANKENMUTH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Summary of District-Wide Financial Statement (continued)

Current assets include cash and receivables that will be realized in cash or consumed within the upcoming school year. Capital assets-net of accumulated depreciation are the original cost of the assets and subtracting the depreciation. Current liabilities include accounts and salaries payable whose liquidation is reasonably expected to require use of current assets. Long-term liabilities include general obligation bonds used to finance acquisition of capital assets and accrued compensated absences. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported to show legal constraints that limit use of some of the assets. Debt covenants and legislation limit the School District's ability to use those net assets for day-to-day operations.

The unrestricted net assets represent the accumulated results of all past years' activities. This amount will be affected by the year-to-year combined operations. The summary of this year's and the previous year's activities for the School District as a whole are reported below.

	2008	2007
Revenue		
Program revenue		
Charges for services	\$ 848,961	\$ 739,506
Grants and categoricals	682,673	676,651
General revenue		
Property taxes	3,889,972	3,816,865
State foundation allowance	7,293,378	7,293,380
Other	229,777	225,097
Transfers and special items	28,455	56,862
Total Revenue	12,951,206	12,808,360
Function/Program expenses		
Instruction	6,419,675	6,240,003
Support services	4,009,170	3,873,508
Community services	311,262	293,090
Food services	491,406	442,811
Athletics	406,505	458,583
Interest & misc. expense on long-term debt	564,930	599,855
Depreciation (unallocated)	570,713	612,883
Total Expenses	12,773,661	12,520,733
Increase (decrease) in Net Assets	\$ 177,545	\$ 287,627

Net Assets increased \$177,545 for the year ended June 30, 2008 as opposed to \$287,627 in the previous year. Part of the reason for this change was a decrease in the amount of interest paid, depreciation charged, and athletic expense.

FRANKENMUTH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Summary of District-Wide Financial Statement (continued)

Funding for the above activities comes from a variety of sources. Some activities are partially funded by those who benefit from the programs or by grants and categoricals from governments and organizations. The remaining activities are paid for from taxes, State Foundation Allowance, and other revenues, such as interest.

The change in net assets differs from the change in fund balance because of different accounting requirements. A reconciliation appears later in the financial statements.

Financial Position Analysis

The analysis of our final position and results of governmental activities indicate our year-end condition was much more positive than earlier projections. These improvements relate to general fund activities, specifically teacher salaries and health insurance costs. Teacher salaries were less due to four staff members going on short term unpaid leaves of absence. Some health insurance expenditures were paid for during the year but were actually prepaid expenditures to be incurred during 2008-09.

General Operations Fund

Our general fund balance decreased by \$218,594 however we anticipated a decrease of \$356,945. The following is a list which attributed to this outcome.

1. In local revenue, the District received approximately \$30,000 less than budgeted due mainly to a decrease in yields from our investments. This was somewhat offset by increased revenues from community education fees and revenues from other public schools.
2. Teacher salaries and school programs were nearly \$120,000 less because of the unpaid leaves taken by staff, cutbacks in textbook and supply needs, and an accounting adjustment for healthcare costs.
3. Board of education and general administration expenditures were \$12,000 less than anticipated.
4. Maintenance costs were \$44,000 higher than anticipated because of increased supply, technology equipment rental, and energy costs.
5. Transportation costs were \$25,000 less due to the replacement of a mechanic who retired in October. This position was filled by a contract employee for considerably less salary and benefits.
6. Outgoing transfer funding for athletics was \$27,000 less than anticipated because of increased gate receipts and a reduction in expenditures for the program.

FRANKENMUTH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Food Service

The food service fund balance was projected to decrease by approximately \$30,000. This was not a significant concern because of a fund reserve of \$74,965. The program ended with a decrease of \$26,407. Although this was near what was anticipated, we must pay very close attention to this program as food costs have been increasing significantly more than anticipated.

Debt Service

The millage rate for the 2001 Capital Projects bond payments was reduced from 2.915 mills in 2006-07 to 2.80 mills in 2007-08 because of property value increases throughout the District. All principal and interest payments were made by the due date.

Capital Projects Fund

The capital projects expenditures were more than revenues as was anticipated. This was due to significant expenditures for new entry doors throughout the middle school and new entry security doors and monitoring systems to all school buildings main entrances. We also replaced exterior overhangs to several door entrances at the high school and a new loop driveway and sidewalk was added to the middle school grounds.

Looking forward, we will deplete our reserves even further in 2008-09 due to the construction of new tennis courts. This expenditure will result in our reserves being at their lowest in several years. The District will need to be most cautious about taking on any large projects until these reserves can be increased to a more comfortable position. Any critical emergency expenditure could be a difficult challenge.

Final Budget vs. Original Budget

When establishing the 2007-08 budget in June 2007 we could only estimate what our revenues would be because of uncertain student enrollment numbers and the uncertain economic condition of our State Treasury. We were given estimates of what our student foundation grant would be but nothing was certain or approved by state government until late August.

The budget adopted in June reflected an anticipated per student foundation increase (state tentative budget approval) and employee salary and benefit increases. In our opinion, it was difficult to establish an accurate budget based on the uncertainty of revenue projections at the state level, uncertain economic conditions at the local level, and actual student enrollment figures. We felt comfortable with this budget only because we knew we would not alter programs during the 2007-08 school year. Our fund reserves still enable us to do so without compromising our financial condition.

FRANKENMUTH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Final Budget vs. Original Budget (continued)

Although some revenue and expenditure functions have variances, our intent was to establish a budget in order to meet the legal requirement of the law to have a budget in place prior to July 1st.

Revenue and Expenditure functions with significant variances are as follows

1. The amended budget for state revenue was significantly larger because of a change in the vocational skill center we send our students to. These students are not counted as full "FTE's" then are billed backed by the Bay-Arenac Skill Center for their services. This resulted in an increase of approximately 11 FTE's (\$86,400). Local non homestead property values were less then anticipated resulting in an increase in the state's contribution to the student foundation grant. Finally our "At-Risk" student population was larger than anticipated resulting in an additional increase of \$10,000 for this program.
2. Tuition to other public schools' budgeted line item in the original budget was significantly reduced in the final budget because this expenditure was more accurately reflected in the basic programs budget function.

Actual vs. Final Budget

Our elected officials and administration consider many factors when setting the District's final 2007-08 fiscal year budget. One of the most important factors affecting the budget is our student count. State revenue is determined by multiplying the blended student count by the foundation allowance per pupil. Once the final student count is known in late September, the District amends the budget to reflect a more accurate projection of the original budget appropriated.

However, management has identified some significant variances as follows.

1. Basis program expenditures were significantly less mainly due to four staff members who took extended "unpaid" leaves during the school year and an accounting procedure for how we prepaid certain healthcare expenses which are actually expenditures for the 2008-09 school year.
2. Instructional staff expenditures were somewhat less because of less than anticipated expenditures for professional development and health care costs.
3. Operation and maintenance expenditures were higher then anticipated because of supply purchases, technology equipment rentals, and energy costs.
4. Transportation costs were less because a highly paid employee retired early and was not replaced.

FRANKENMUTH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Actual vs. Final Budget (continued)

5. This year our athletic gate receipts were higher then expected and expenditures were lower resulting in fewer general fund dollars transferred over to support the program.

Capital Assets

As of June 30, 2008, the School District had \$17,054,127 in capital assets less depreciation.

	2008	2007
Land	\$ 479,631	\$ 479,631
Construction in progress	55,166	13,428
Buildings and improvements	21,021,295	20,907,283
Site improvements	192,251	24,255
Buses and other vehicles	1,168,338	1,144,998
Furniture and equipment	1,162,219	1,185,707
Total Capital Assets	24,078,900	23,755,302
Less accumulated depreciation	7,024,773	6,521,865
Net Capital Assets	\$ 17,054,127	\$ 17,233,437

Significant capital additions during the year were one bus, completion of the middle school bus loop, security upgrades and a canopy for the high school.

Debt

Governmental Activities	2008	2007
Bonds	\$ 2,160,000	\$ 2,805,000
Refunding bonds	9,420,000	9,475,000
Accrued compensated absences	81,873	97,095
Totals	\$ 11,661,873	\$ 12,377,095

As of June 30, 2008, the School District had \$11,580,000 in General Obligation Bonds outstanding versus \$12,280,000 in the previous year – a change of about six percent. At this time, the District has no plans to issue any new debt.

FRANKENMUTH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Debt (continued)

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issued "qualified debt," such obligations are not subject to this debt limit. The School District has no unqualified general obligation debt. Other obligations included employee-compensated absences. The notes to the financial statements contain detailed information on long-term liabilities.

Economic Conditions Affecting Next Year's Budget

General Fund

The projections for the 2008-09 budget are to dip into reserves to meet expenditures. We do not anticipate spending as much of the reserves as in 2007-08. We consider this a concern at this time because we have been spending down our reserves however slightly over the past six years. The Board of Education and Administration have implemented several cutbacks to help curb this condition. Looking down the road, if we do not see an increase in student population and/or reasonable increases in revenue, some even more difficult decisions will have to be made. The Board and Administration is continually monitoring these issues in order to make sound decisions to protect the financial integrity of the District.

Food Service

It is anticipated that the 2008-09 budget will be in deficit. This is mainly because of the increasing costs for food. This program will need close monitoring to ensure we don't deplete all of our reserves. A meal price increase will probably need to be enacted for the 2009-10 school year.

Capital Projects Fund

The 2008-09 budget for capital improvement expenditures will be significantly higher than revenues. This will cause our reserves to be lower than they have been in years. The District must be cautious about taking on any large projects and hope we have no critical emergency expenditure until we can build the reserves back to an ideal amount.

Our Capital Projects Debt millage levy should continue to decrease and taxable property values should continue to rise.

Contacting the School District's Financial Management

If you have questions regarding this report, please contact the Superintendent's office, 941 E. Genesee St., Frankenmuth, Michigan 48734.

FRANKENMUTH SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities
Assets	
Cash	\$ 277,549
Investments	5,690,000
Due from other governmental units	1,374,782
Other receivables	42,639
Prepays	96,545
Inventories	17,545
Capital assets less accumulated depreciation	17,054,127
Total Assets	24,553,187
Liabilities	
Current liabilities	
Accounts payable	69,101
Salaries payable	1,124,313
Deferred revenue	16,431
Bonds payable, due within one year	680,000
Long-term liabilities	
Bonds payable, due in more than one year	10,900,000
Compensated absences, due in more than one year	81,873
Total Liabilities	12,871,718
Net Assets	
Invested in capital assets net of related debt	5,474,127
Restricted for debt service	324,051
Restricted for capital projects	339,052
Unrestricted	5,544,239
Total Net Assets	\$ 11,681,469

The accompanying notes are an integral part of these financial statements.

FRANKENMUTH SCHOOL DISTRICT
DISTRICT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 6,419,675	\$ 38,890	\$ 289,474	\$ (6,091,311)
Support services	4,009,170	34,271	275,281	(3,699,618)
Community services	311,262	331,212	-	19,950
Food services	491,406	360,574	117,918	(12,914)
Athletics	406,505	84,004	-	(322,501)
Interest & misc. expense on long-term debt	564,930	-	-	(564,930)
Depreciation (unallocated)	570,713	-	-	(570,713)
Totals	<u>\$ 12,773,661</u>	<u>\$ 848,951</u>	<u>\$ 682,673</u>	<u>(11,242,037)</u>
General revenues:				
Taxes:				
Property taxes levied for general purposes				2,404,545
Property taxes levied for capital projects				221,741
Property taxes levied for debt service				1,243,686
State aid - unrestricted				7,293,378
Interest				211,748
Other				18,029
Total General Revenues				<u>11,393,127</u>
Excess (deficiency) of revenues over expenses before special items				151,090
Transfers				22,455
Special items-gain (loss) on sale of capital assets				<u>4,000</u>
Total general revenues, transfers, and special items				<u>11,419,582</u>
Change in Net Assets				177,545
Net Assets - Beginning of Year				<u>11,503,924</u>
Net Assets - End of Year				<u>\$ 11,681,469</u>

The accompanying notes are an integral part of these financial statements.

FRANKENMUTH SCHOOL DISTRICT
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2008

	General	Food Service	Athletic	Debt Service	Capital Projects	Totals
<u>Assets</u>						
Cash	\$ 17,125	\$ 38,815	\$ -	\$ 43,112	\$ 178,497	\$ 277,549
Investments	5,250,000	-	-	280,000	160,000	5,690,000
Due from other governmental units	1,371,386	3,396	-	-	-	1,374,782
Prepays	95,295	1,250	-	-	-	96,545
Other receivables	41,104	41	-	939	555	42,639
Inventory	9,400	8,145	-	-	-	17,545
Total Assets	<u>\$ 6,784,310</u>	<u>\$ 51,647</u>	<u>\$ -</u>	<u>\$ 324,051</u>	<u>\$ 339,052</u>	<u>\$ 7,499,060</u>
<u>Liabilities and Fund Balance</u>						
<u>Liabilities</u>						
Accounts payable	\$ 66,012	\$ 3,089	\$ -	\$ -	\$ -	\$ 69,101
Salaries payable	1,124,313	-	-	-	-	1,124,313
Deferred revenue	16,431	-	-	-	-	16,431
Total Liabilities	<u>1,206,756</u>	<u>3,089</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,209,845</u>
<u>Fund Balance</u>						
Reserved for debt retirement	-	-	-	324,051	-	324,051
Reserved for capital projects	-	-	-	-	339,052	339,052
Reserved for prepaids	95,295	1,250	-	-	-	96,545
Reserved for inventories	9,400	8,145	-	-	-	17,545
Undesignated & unreserved	5,472,859	39,163	-	-	-	5,512,022
Total Fund Balance	<u>5,577,554</u>	<u>48,558</u>	<u>-</u>	<u>324,051</u>	<u>339,052</u>	<u>6,289,215</u>
Total Liabilities and Fund Balance	<u>\$ 6,784,310</u>	<u>\$ 51,647</u>	<u>\$ -</u>	<u>\$ 324,051</u>	<u>\$ 339,052</u>	<u>\$ 7,499,060</u>

The accompanying notes are an integral part of these financial statements.

FRANKENMUTH SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL
FUNDS TO DISTRICT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total Fund Balances - Governmental Funds	\$ 6,289,215
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets is	24,078,900
Accumulated depreciation is	(7,024,773)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(11,580,000)
Compensated absences	<u>(81,873)</u>
Total Net Assets - Governmental Activities (District Wide)	<u>\$ 11,681,469</u>

The accompanying notes are an integral part of these financial statements.

**FRANKENMUTH SCHOOL DISTRICT
GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008**

	General	Food Service	Athletic	Debt Service	Capital Projects	Totals
Revenue						
Local	\$ 3,012,453	\$ 362,081	\$ 84,004	\$ 1,260,542	\$ 229,619	\$ 4,948,699
State	7,512,318	17,464	-	-	-	7,529,782
Federal	345,814	100,454	-	-	-	446,268
Total Revenue	10,870,585	479,999	84,004	1,260,542	229,619	12,924,749
Expenditures						
Instruction						
Basic programs	5,846,588	-	-	-	-	5,846,588
Added needs	588,307	-	-	-	-	588,307
Support services						
Pupil	684,044	-	-	-	-	684,044
Instructional staff	361,279	-	-	-	-	361,279
General administration	298,836	-	-	-	-	298,836
School administration	696,809	-	-	-	-	696,809
Business	142,555	-	-	-	-	142,555
Operation and maintenance	1,145,845	-	-	-	-	1,145,845
Pupil transportation services	505,576	-	-	-	-	505,576
Central services	199,938	-	-	-	-	199,938
SEV judgments	16,657	-	-	36	6	16,699
Community services	193,200	-	-	-	-	193,200
Custody and care of children	118,062	-	-	-	-	118,062
Non-public school pupils	10,437	-	-	-	-	10,437
Capital outlay	-	-	-	-	338,555	338,555
Debt Service	-	-	-	1,264,930	-	1,264,930
Food services	-	491,406	-	-	-	491,406
Athletic	-	-	406,505	-	-	406,505
Total Expenditures	10,808,133	491,406	406,505	1,264,966	338,561	13,309,571
Excess (Deficiency) of Revenues over Expenditures	62,452	(11,407)	(322,501)	(4,424)	(108,942)	(384,822)
Other Financing Sources (Uses)						
Sources	37,455	-	322,501	-	-	359,956
Uses	(322,501)	(15,000)	-	-	-	(337,501)
Proceeds on sale of fixed assets	4,000	-	-	-	-	4,000
Total Other Financing Sources (Uses)	(281,046)	(15,000)	322,501	-	-	26,455
Net Change in Fund Balances	(218,594)	(26,407)	-	(4,424)	(108,942)	(358,367)
Fund Balances - Beginning of Year	5,796,148	74,965	-	328,475	447,994	6,647,582
Fund Balances - End of Year	\$ 5,577,554	\$ 48,558	\$ -	\$ 324,051	\$ 339,052	\$ 6,289,215

The accompanying notes are an integral part of these financial statements.

FRANKENMUTH SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
 DISTRICT-WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2008

Net Change in Fund Balances - Governmental Funds	\$ (358,367)
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Amounts reported for governmental activities in the statement
 of activities are different because:

Governmental funds report capital outlay as expenditures; proceeds
 as income in the statement of activities, these costs are capitalized
 and depreciated over their estimated useful lives. Losses on the
 sale of capital assets are not recognized at the fund level.

Depreciation expense	(570,713)
Capital outlay	391,403

The issuance of long-term debt (e.g. bonds) provides current financial
 resources to governmental funds, while the repayment of the principal
 of long-term debt consumes the current financial resources of
 governmental funds. Neither transaction has any effect on net assets.

Repayment of bond principal	700,000
-----------------------------	---------

In the statement of activities, certain expenses (retirement
 incentives, compensated absences) are measured by the
 amounts earned during the year. The governmental funds
 measure the financial resources used (paid). This year,
 the amount of these items earned exceeded the amounts paid.

Compensated absences	<u>15,222</u>
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Change in Net Assets of Governmental Activities (District Wide)	<u>\$ 177,545</u>
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The accompanying notes are an integral part of these financial statements.

FRANKENMUTH SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

Agency Funds

Assets

Cash, student organizations	<u>\$ 226,158</u>
Total Assets	<u>\$ 226,158</u>

Liabilities

Due to student organizations	<u>\$ 226,158</u>
Total Liabilities	<u>\$ 226,158</u>

The accompanying notes are an integral part of these financial statements.

FRANKENMUTH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

The Frankenmuth School District (the "School District") operates under an elected Board of Education and provides educational services to approximately 1,255 students.

A. Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

B. District-Wide Statements

The District-Wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the primary government. The usual purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to students or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

The District-Wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The District-Wide approach is focused more on the sustainability of the School District as an entity and the change in the School District's net assets from the current year's activities.

FRANKENMUTH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1—Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements

The accounts of the School District are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following fund types are used by the School District:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the School District.

General Fund is the general operating fund of the School District. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The food service and athletic funds are special revenue funds.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support School District programs.

The emphasis in fund financial statements is on the major funds. The School District has opted to display information for all funds without regard to the criteria for determination of major funds. The School District's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used for activities or obligations of the government, these funds are not incorporated in the District-Wide statements.

FRANKENMUTH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1—Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recording of revenue when earned and expenses when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, within 60 days of the end of the current fiscal year. Expenditures are still recognized when incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

E. Financial Statement Amounts

Cash

Cash includes cash on hand, demand deposits, and time deposits.

Investments

Investments include certificates of deposit and are stated at fair value.

Receivables

Due from other governmental units are payments earned but not received at year-end from other governments. Receivables consist of all revenues earned at year-end but not yet received from other customers.

Inventories

Inventories consist of expendable supplies held for the School District's use and are carried at cost using the first-in, first-out method.

FRANKENMUTH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Prepays

Prepaid amounts consist of payments for which the School District will have a future benefit and will be used up at a date beyond the current year-end.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principals requires management to make estimates and assumptions that affect certain reported amounts and disclosures; therefore, actual results could differ from those estimates.

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed, as incurred. The School District does not possess infrastructure type assets. Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Buildings and improvements	50 years
Buses and other vehicles	8 years
Furniture and equipment	5-20 years

Accounts Payable

Accounts payable consist of items from which the School District benefited during the current fiscal year but has not yet paid.

Salaries Payable

Salaries payable consist of amounts due on employee's contracts payable for the current fiscal year and the District's portion of payroll taxes and retirement contributions.

Long-Term Liabilities

Bonds payable are the result of long-term obligations issued for the purpose of making capital purchases and improvements or the refinancing of previously issued obligations. Compensated absences represent accumulated unpaid vacation and sick leave. The accumulated benefit is payable to the employee upon termination of employment. No portion of the compensated absence is believed to be current at year-end.

FRANKENMUTH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Inter-fund Activity

Inter-fund activity is reported as transfers. Transfers are eliminated upon consolidation.

Unemployment Compensation

As an employer, the School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment commission for all benefits charged against the School District. There were no unemployment expenditures for the year ended June 30, 2008.

NOTE 2--Stewardship, Compliance, and Accountability

The School District is required to adopt an annual budget before the beginning of the fiscal year for the General Fund, Food Service Fund, and the Athletic Fund. The accounting basis of the budgets is the modified accrual method. Following are the procedures used in establishing the budgetary data reflected in the financial statements:

1. The School District's Superintendent submits to the Board of Education a proposed budget by June 30 of each year. The budget includes proposed expenditures and the means to finance them.
2. A public hearing is conducted to obtain taxpayer comments.
3. The Superintendent is authorized to transfer budgeted amounts within functional expenditure lines as approved by the Board; however, any revisions that alter functional expenditure lines of any fund must be approved by the Board of Education.
4. Budgeted amounts shown in the supplemental information reflect amendments through June 30.

The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by June 30. Expenditures in excess of amounts budgeted are a violation of Michigan law.

State law permits districts to amend their budgets during the year. The School District budget variances are illustrated in the supplemental information.

FRANKENMUTH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 3--Deposits and Investments

The School District is authorized, by the State of Michigan, to deposit its fund in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The School District is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks,
- f. Mutual funds – investments which local unit can make directly.

The FDIC insures up to \$100,000 in demand deposits; however, separately named accounts of a governmental entity in a single financial institution may not necessarily be treated as a separate deposit for the \$100,000 limitation. The NCUA insures up to \$100,000 in demand deposits.

A summary of bank cash balances is as follows:

	Total	Insured	Collateralized	Uninsured Uncollateralized
Cash				
General fund	\$ 64,127	\$ 64,127	\$ -	\$ -
Special revenue	38,815	35,873	-	2,942
Agency	195,125	5	-	195,120
Debt service	43,112	-	-	43,112
Capital projects	178,497	-	-	178,497
Total	<u>\$ 519,676</u>	<u>\$ 100,005</u>	<u>\$ -</u>	<u>\$ 419,671</u>
Investments				
General fund	\$ 5,250,000	\$ 100,000	\$ -	\$ 5,150,000
Agency	45,846	45,846	-	-
Debt service	280,000	-	-	280,000
Capital projects	160,000	-	-	160,000
Total	<u>\$ 5,735,846</u>	<u>\$ 145,846</u>	<u>\$ -</u>	<u>\$ 5,590,000</u>

The policy of the Board is to invest surplus funds of the District.

FRANKENMUTH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the School District was as follows:

	Balance July 1, 2007	Additions	Transfers	Disposals	Balance June 30, 2008
Capital assets not subject to depreciation					
Land	\$ 479,631	\$ -	-	\$ -	\$ 479,631
Construction in progress	13,428	55,166	(13,428)	-	55,166
Subtotals	<u>493,059</u>	<u>55,166</u>	<u>(13,428)</u>	<u>-</u>	<u>534,797</u>
Capital assets subject to depreciation					
Site improvements	24,255	165,544	2,452	-	192,251
Buildings and improvements	20,907,283	103,036	10,976	-	21,021,295
Buses	1,039,376	67,657	-	(44,317)	1,062,716
Vehicles	105,622	-	-	-	105,622
Furniture and equipment	1,185,707	-	-	(23,488)	1,162,219
Subtotals	<u>23,262,243</u>	<u>336,237</u>	<u>13,428</u>	<u>(67,805)</u>	<u>23,544,103</u>
Total Capital Assets	<u>23,755,302</u>	<u>391,403</u>	<u>-</u>	<u>(67,805)</u>	<u>24,078,900</u>
Accumulated depreciation					
Site improvements	1,213	1,212	-	-	2,425
Buildings and improvements	5,020,270	430,431	-	-	5,450,701
Buses	657,106	83,173	-	(44,317)	695,962
Vehicles	78,930	5,330	-	-	84,260
Furniture and equipment	764,348	50,567	-	(23,488)	791,425
Total Accumulated Depreciation	<u>6,521,865</u>	<u>570,713</u>	<u>-</u>	<u>(67,805)</u>	<u>7,024,773</u>
Total Net Capital Assets	<u>\$ 17,233,437</u>	<u>\$ (179,310)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,054,127</u>

Depreciation expense was not charged to specific activities as the School District considers its capital assets to impact multiple activities and allocation is not practical.

NOTE 5--Inter-fund -- Receivables, Payables, and Transfers

The makeup of inter-fund balances and transfers is as follows:

Outgoing Transfer		Incoming Transfer	
General fund	\$ 322,501	Athletics	\$ 322,501
Food service	15,000	General fund	15,000
Total	<u>\$ 337,501</u>	Total	<u>\$ 337,501</u>

For the year ended June 30, 2008, transfers from the general fund to the athletic fund were to subsidize the athletic program. The transfer from the food service fund to the general fund was to cover indirect costs.

FRANKENMUTH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 6--Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term debts include compensated absences.

Long-term debt activity is summarized as follows:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008	Current Portion
Governmental Activities					
Bonds	\$ 2,805,000	\$ -	\$ 645,000	\$ 2,160,000	\$ 680,000
Accrued compensated absences	97,096	-	15,222	81,873	-
Refunding bonds	9,475,000	-	55,000	9,420,000	60,000
Totals	<u>\$ 12,377,095</u>	<u>\$ -</u>	<u>\$ 715,222</u>	<u>\$ 11,661,873</u>	<u>\$ 740,000</u>

Annual debt service requirements to maturity for the above governmental bonds are as follows:

Fiscal Year Ending	Principal	Interest	Total
2009	\$ 740,000	\$ 527,268	\$ 1,267,268
2010	780,000	488,218	1,268,218
2011	820,000	446,818	1,266,818
2012	860,000	403,068	1,263,068
2013	890,000	372,968	1,262,968
2014-2018	5,115,000	1,217,270	6,332,270
2019-2020	2,375,000	145,609	2,520,609
Subtotals	11,580,000	3,601,219	15,181,219
Compensated Absences	81,873	-	81,873
Totals	<u>\$ 11,661,873</u>	<u>\$ 3,601,219</u>	<u>\$ 15,263,092</u>

For the year ended June 30, 2008, the total interest paid on bonded debt was \$564,255.

NOTE 7—Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters. During the year, the School District carried commercial insurance for the above risks of loss.

FRANKENMUTH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 8--Pension Plan

The School District's defined benefit pension plan provides retirement, survivor and disability benefits to its employees. The School District participates in the Michigan Public School Employees Retirement System (MPERS), a cost sharing multiple-employer, statewide plan governed by the State of Michigan. Benefit provisions are established by state statute. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing the MPERS Directors, PO Box 30673, Lansing, Michigan 48909 or by calling (517) 322-6235.

Funding Policy

The School District is required to contribute at an actuarially determined rate; the current rate is 16.72% of covered payroll. Employees hired before January 1, 1990, contribute 3.9% of their gross pay. Employees hired January 1, 1990, or later contribute between 3% and 4.3%. The contribution requirements are established and may be amended by the State of Michigan.

The School District's contributions to MPERS for the current year and the preceding two years were \$1,102,905, \$1,106,887, and \$1,006,229 respectively, which was 100% of the annual required contribution.

NOTE 9--Self-Funded Insurance

The School District offers a self-insured dental plan to all full-time employees. Participants and their eligible dependents are entitled to benefits as outlined in the program booklet entitled, "Frankenmuth School District Dental Insurance Plan".

NOTE 10--Leases

The School District leased copiers under an operating lease from an unrelated party. In addition to lease payments, the School District is responsible for taxes and insurance on the copiers. Lease expense was \$25,744 and \$24,714, for the fiscal years ended June 30, 2008, and 2007, respectively.

NOTE 11--Sinking Funds

The Frankenmuth School District's Capital Projects Fund-Sinking Fund records capital projects activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of section 1212(1) of the Revised School Code.

FRANKENMUTH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 12—Fund Balance Reservations

Frankenmuth School District has reserved the following amounts in fund balance:

	General	Special Revenue	Debt Service	Capital Projects	Total
Reserved for debt retirement	\$ -	\$ -	\$ 324,051	\$ -	\$ 324,051
Reserved for inventories	9,400	8,145	-	-	17,545
Reserved for prepaids	95,295	1,250	-	-	96,545
Reserved for capital projects	-	-	-	339,052	339,052
Total Reservations	<u>\$ 104,695</u>	<u>\$ 9,395</u>	<u>\$ 324,051</u>	<u>\$ 339,052</u>	<u>\$ 777,193</u>

NOTE 13—Advance Refund of Bond Resulting in Defeasance of Debt

In January of 2005, the District issued \$9,580,000 in general obligation refunding bonds with interest rates ranging between 2.50% and 5.00%. The District issued the bonds to advance refund \$9,580,000 of the outstanding series 2001 general obligation bonds with interest rates ranging from 5.5% to 5.75%. The District used the net proceeds along with other sources to purchase State and Local Government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded 2001 series bonds. As a result, a portion of the 2001 series bonds are considered defeased, and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$9,080,000 as of June 30, 2008. The balance is scheduled to be paid from the escrow account on May 1, 2010.

The advance refunding reduced the total debt service payments over the next 16 years by \$717,489. This results in an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$520,817.

SUPPLEMENTAL INFORMATION

FRANKENMUTH SCHOOL DISTRICT
BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund			Special Revenue Funds (Food Service and Athletic)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Variance with Final Budget Over (Under)
Revenue						
Local	\$ 3,071,273	\$ 3,067,266	\$ 3,012,453	\$ 448,000	\$ 448,000	\$ 446,085
State	7,309,951	7,481,407	7,512,318	16,000	18,500	17,484
Federal	336,113	366,243	345,814	81,200	81,200	100,454
Incoming transfers and other	36,000	30,000	41,455	350,259	345,617	322,501
Total Revenues	10,753,337	10,944,916	10,912,040	895,459	893,317	886,504
Expenditures						
Instruction						
Basic programs	5,884,033	5,975,978	5,846,588	-	-	-
Added needs	561,004	686,651	588,307	-	-	-
Support Services						
Pupil	884,916	690,869	684,044	-	-	-
Instructional staff	367,332	388,541	361,279	-	-	-
General administration	287,102	309,366	298,836	-	-	-
School administration	700,844	698,531	696,809	-	-	-
Business	145,879	145,260	142,555	-	-	-
Operation and maintenance	1,104,420	1,104,235	1,145,845	-	-	-
Pupil transportation services	539,223	536,533	505,576	-	-	-
Central services	172,506	209,489	199,938	-	-	-
Community services	171,434	168,516	193,200	-	-	-
Custody and care of children	106,437	112,475	118,062	-	-	-
Non-public school pupils	-	-	10,437	-	-	-
Tuition to other public schools	60,000	9,800	-	-	-	-
SEV judgments	15,000	15,000	16,657	-	-	-
Facilities acquisition	5,000	5,000	-	-	-	-
Food service	-	-	-	483,233	487,802	491,406
Athletic activities	-	-	-	425,259	420,617	406,505
Outgoing transfers and other	-	-	-	15,000	15,000	15,000
Total Expenditures	350,259	345,617	322,501	923,492	923,419	912,911
Excess (Deficiency) of Revenues	11,278,489	11,301,861	11,130,634			(10,508)
Over Expenditures	(526,162)	(356,945)	(218,594)			3,605
Fund Balance - Beginning of Year	5,796,148	5,796,148	5,796,148			-
Fund Balance - End of Year	5,270,996	5,439,203	5,577,554			\$ 48,558
						\$ 3,695

See independent auditor's report.

FRANKENMUTH SCHOOL DISTRICT
SCHEDULES OF OUTSTANDING BONDED INDEBTEDNESS
JUNE 30, 2008

2001 ISSUE \$14,890,000

\$9,580,000 of original issue refunded

Interest Rate: 5.5%

Year Ending June 30,	Annual Principal	Semiannual Interest Payment		Total Fiscal Year Requirement
	1-May	1-Nov	1-May	
2008-09	\$ 680,000	\$ 59,400	\$ 59,400	\$ 798,800
2009-10	720,000	40,700	40,700	801,400
2010-11	760,000	20,900	20,900	801,800
Totals	<u>\$ 2,160,000</u>	<u>\$ 121,000</u>	<u>\$ 121,000</u>	<u>\$ 2,402,000</u>

2005 Refunding Bonds

\$9,580,000

Interest Rate: 2.5-4.1%

Year Ending June 30,	Annual Principal	Semiannual Interest Payment		Total Fiscal Year Requirement
	1-May	1-Nov	1-May	
2008-09	\$ 60,000	\$ 204,234	\$ 204,234	\$ 468,468
2009-10	60,000	203,409	203,409	466,818
2010-11	60,000	202,509	202,509	465,018
2011-12	860,000	201,534	201,534	1,263,068
2012-13	890,000	186,484	186,484	1,262,968
2013-14	925,000	170,352	170,352	1,265,704
2014-15	970,000	147,227	147,227	1,264,454
2015-16	1,020,000	122,977	122,977	1,265,954
2016-17	1,075,000	97,477	97,477	1,269,954
2017-18	1,125,000	70,602	70,602	1,266,204
2018-19	1,170,000	48,103	48,103	1,266,206
2019-20	1,205,000	24,702	24,702	1,254,404
	<u>\$ 9,420,000</u>	<u>\$ 1,679,610</u>	<u>\$ 1,679,610</u>	<u>\$ 12,779,220</u>

See independent auditor's report.



Gardner | Provenzano Schauman & Thomas

CHARTERED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

September 30, 2008

To the Board of Education
Frankenmuth School District
Frankenmuth, Michigan

We have audited the financial statements of the governmental activities of Frankenmuth School District as of and for the year ended June 30, 2008, which comprise Frankenmuth School District's basic financial statements, and have issued our report thereon dated September 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Frankenmuth School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Frankenmuth School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Frankenmuth School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Frankenmuth School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Frankenmuth School District's financial statements that is more than inconsequential will not be prevented or detected by Frankenmuth School District's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

We noted an absence of appropriate segregation of duties consistent with appropriate control objectives.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Frankenmuth School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether Frankenmuth School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Education
Frankenmuth School District
Page Three

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and the pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gardner, Provenzano, Schreiman & Thomas, P.C.

Certified Public Accountants